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GAIN Report

Global Agricultural Information Network

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Report Highlights:

BHG high-end supermarkets are carving out a new consumer demographic for imported food in China. In the process, they are turning conventional wisdom about pricing and target markets on its head.

General Information:

Beijing Hualian Group, more commonly called BHG, has established 12 stores in the Beijing area specializing in top-end products. Growth rates have been nearly exponential, and the chain is seeking to expand into second tier cities. BHG's success has overturned conventional wisdom by targeting high-end Chinese consumers rather than expatriates, and destroying widely held assumptions about the price sensitivity of Chinese consumers. In challenging these assumptions, BHG continues to tap into a market that has exceeded all expectations.

Although BHG carries a wide range of international products, it has been a particularly good venue for U.S. products. Sales data from the first three months of 2011 show a total of nearly \$3 million in sales of U.S. products for the twelve Beijing stores. Snack foods, fresh and dried fruit and nuts, and soft drinks were among the top selling items.

BHG Sales of U.S. Products, January-March 2011, by category	
Section	Sales (USD)
fresh fruit, dry fruit & nuts	\$652,286.00
poultry (frozen turkey)	\$593.00
Frozen Products (dairy products, meat, ice cream)	\$269,488.00
Beverage	\$479,946.00
Beer	\$2,310.00
Wine	\$32,395.00
Spirits	\$42,435.00
Snack food	\$1,086,930.00
Flavoring & Canned Food	\$306,604.00
Infant Food Products	\$34,081.00
Breakfast Cereal	\$84,329.00
Pet food	\$240.00
Subtotal	\$2,991,637.00

Learning from the Market:

BHG originated as a subsidiary of domestic retailing giant Hualian's department store group. The BHG High-End Supermarkets were launched as a separate venture in 2007, with a model that targeted expatriate-heavy communities. The first store was a joint venture with XinKong Plaza, followed a year later by stores in Shunyi and Solana. The original strategy offered 4 store formats. The Market Place stores are medium sized (2,000-3,000 square meters) and focus on the extreme high-end of the market, catering to aspirational buyers and Chinese returned from overseas. Food Market stores are somewhat smaller (800-2,000 sqm), and targeted middle/upper middle class buyers. Lifestyle Markets targeted the same group, but are much larger (4,000-10,000 sqm) and generally located in residential communities. Lastly, Food Express stores are essentially high-end convenience stores, with 200 sqm of space. This staged approach was meant to establish the BHG name

with middle-class consumers with the objective of eventually graduating them on to higher-end stores.

Right from the start, however, BHG discovered that sales were higher at the Market Place stores, and they began converting the Food Market stores to the higher-end format. At this point, 10 of BHG's 12 Beijing stores are now Market Place stores, and the remaining two will be converted. Moreover, as they added stores, BHG managers discovered that demand was not concentrated primarily in the expatriate-heavy communities, but was present throughout the city. Equally important, the market segment they'd tapped into appeared to be recession proof: sales growth held steady at 40% through the Financial Crisis in 2009, even as overall retail sales fell by 10%. Growth continued at that pace in 2010, with profits growing by 50%. Key concerns in the food sector this year have focused on food price inflation and food safety. BHG feels it is well positioned to deal with both issues, as domestic price inflation is closing the gap between domestic and imported products, while imports benefit from a strong reputation for safety. Organics are one of the hottest products for BHG these days.

BHG's distinct customer base emphasizes a different product mix from expatriate-focused stores. Where the latter tends to be focused on providing hometown tastes at a reasonable price, BHG is more focused on famous brands and aspirational consumption. BHG also has a strong commitment to customer education, and frequently conducts consumer education activities in its stores, an important corollary to its largely Chinese customer base. This has made it an ideal venue for promotional and market development activities aimed at building demand among Chinese consumers.

BHG and ATO:

BHG's interest in consumer education and famous brands has made it an ideal partner for ATO and USDA cooperators. ATO has worked closely with BHG High-End Markets from its earliest days, providing advice on U.S. products and contacts with U.S. exporters and distributors. In July 2010, ATO conducted a promotion including all 5 of BHG's stores (there are now 12, with another two scheduled to open in 2011). Products seeing particular success included fresh fruit (cherries and grapefruit), organic milk, wine and soft drinks. The event also introduced a number of frozen foods for the first time, including pizza, cheesecake, ice cream, breakfast products and frozen vegetables. ATO's promotion expanded BHG's line of U.S. products from 1,600 SKUs to 2,221 SKUs. Since then, the product lineup has continued to expand, and is currently at 4,552 SKUs of U.S. product. Several USDA cooperators have taken advantage of BHG's interest in customer education, most recently with the USA Dairy Export Council providing a media/consumer briefing on cooking with cheese. Most recently, ATO worked with the Organics Trade Association to support BHG's participation in the Natural Products Trade Show in Los Angeles in mid March. The first order of organics made on that trip is expected to arrive in April.

Future Plans

BHG is already expanding to other parts of China. In typical fashion, their plan is both counterintuitive and proving to be successful. Rather than targeting similar cities such as Shanghai and Guangzhou, BHG has focused on establishing itself in the second and third-tier boomtowns such as Chengdu, Nanjing, Zhengzhou, Tianjin, Suzhou and Xining. (If you don't need a map for that last one, you get an A+ in geography). By targeting these

cities, BHG is bypassing well-established competitors and becoming the only retailer of their type in these secondary markets. Although high-end shoppers may be a small percentage of the total population, this is still a large and underserved group. BHG management is clear on their strategy here – profit is a secondary objective, with market share and brand identity being foremost. If successful, BHG's expansion will not just bring imports to new markets, but will help to build the distribution networks needed to move them.

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